


Defendants'
Exhibit
1148



**BlueCross BlueShield
Association**
An Association of Independent
Blue Cross and Blue Shield Plans

Specialty Pharmaceutical Initiative

**Specialty Pharmaceutical National Partnership Showcase
Orlando, Florida
June 19-20, 2002**

Agenda

- **Background**
 - Context
 - BCBSA Strategic Priorities
- Pharmaceutical Cost Trends
- Specialty Pharmaceutical Initiative
- Specialty Pharmacy Program Overview
- Appendix

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Defendants' Exhibit

1148

01-12257 - PBS

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Agenda

- Background
 - **Pharmaceutical Cost Trends**
 - National Trends
 - Blue Trends
- Specialty Pharmaceutical Initiative
- Specialty Pharmacy Program Overview
- Appendix

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Pharmaceutical Costs Trends: National Trends

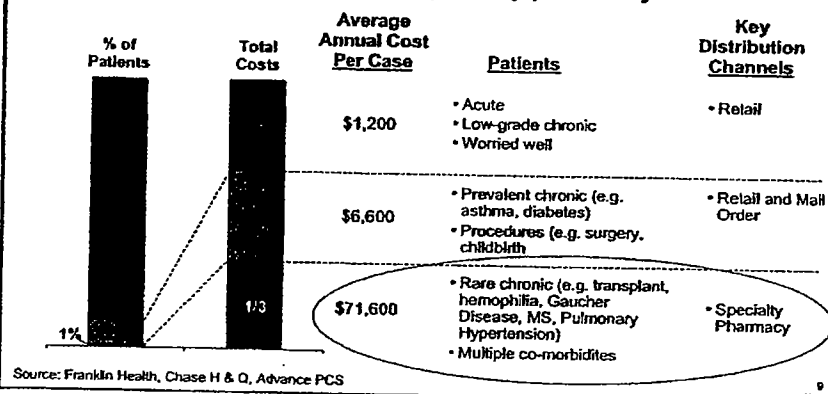
Key Trends

- Over the past twenty years, there has been a substantial and steady increase in:
 - Share of national health expenditures attributed to pharmaceutical costs
 - Total pharmaceutical spending for public and private payers
- Increased utilization and price increases are the primary drivers of prescription drug costs
- Promotional spending has propelled sales for pharmaceutical companies
- Increasing research and development budgets will continue to feed expensive new drugs into the market
- Pharmaceuticals continue to be the most profitable industry; however, the introduction of generics affects profit margins

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Pharmaceutical Costs Trends: National Trends

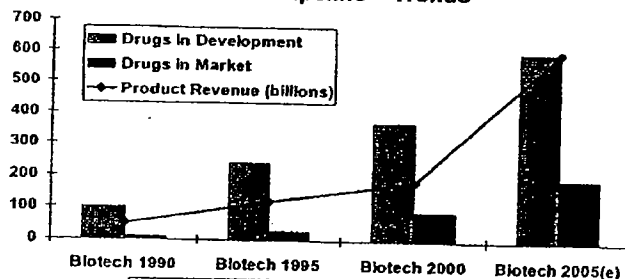
1% of patient population represents one-third of total healthcare costs, specific to specialty pharmacy



Pharmaceutical Cost Trends: National Trends

A contributor to the rising pharmacy cost is the escalating number of biotech drugs in the market

The Biotech Pipeline – Trends



Biotech drugs approved in 2001	12
Biotech drugs marketed in the U.S.	117
Biotech drugs waiting final FDA approval	57

Note: Information per Bank of America Securities, based on Wall Street research estimates, Advance PCS

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Step approved for

1.12.0

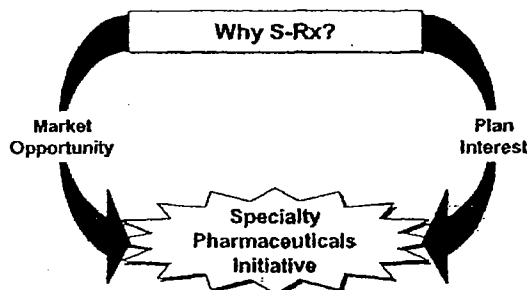
Agenda

- Background
- Pharmaceutical Cost Trends
- **Specialty Pharmaceutical Initiative**
 - Why a S-Rx Initiative?
 - Vendor Selection Process
- Specialty Pharmacy Program Overview
- Appendix

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Specialty Pharmaceutical Initiative: Why a S-Rx Initiative?

The S-Rx Initiative was implemented in response to significant Plan interest and market opportunity



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Specialty Pharmaceutical Initiative: Why a S-Rx Initiative?

Blue cost experience and savings opportunity varies by Plan market

Specialty Rx Annual Spend (est.) (1M member plan)	Specialty Rx Categories	% of Spend (range)
\$19.6 - \$27.0 million	Oncology	35-50%
	Vaccines	18-28%
	Blood Factors	10-20%
	Infertility	10%
	HIV	12%

Low estimate

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Specialty Pharmaceutical Initiative: Why a S-Rx Initiative?

Tales from the Front

Reimbursement Practice

- AWP
- AWP - 5%
- Medicare blended AWP

Physician Purchasing Reality

"U.S. Oncology can purchase drugs for anywhere from 18% - 40% off AWP."

"We're reimbursing pediatricians at AWP-5%, and they're able to buy at much lower - even 60% to 70% off."

"There are group practices in our area who can get these drugs for 30% - 40% off."

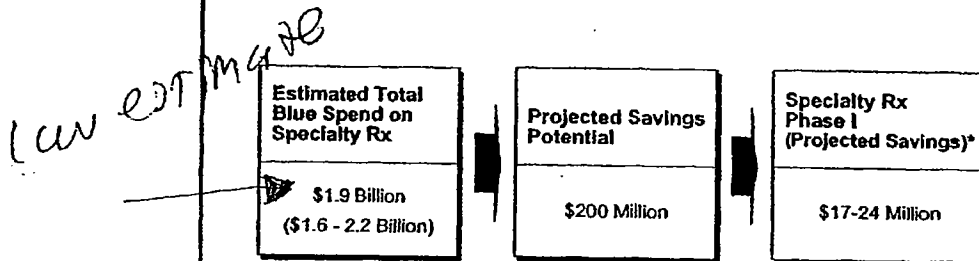
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Specialty Pharmaceutical Initiative: Why a S-Rx Initiative?

Fully-implemented savings opportunity is \$200M



* Annualized; assumes 3-5 Plans, 7-10 million members

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Specialty Pharmaceutical Initiative: Why a S-Rx Initiative?

Cost savings enabled through 2 different Distribution Service Models

Traditional Distribution/ Reimbursement	Patient-Specific Distribution/Reimbursement
Savings Driver: Fee schedule reductions made possible through access to GPO contracts for Plans and Plan-sponsored physicians	Savings Drivers: <ul style="list-style-type: none"> • Fee schedule reductions • NDC billing (vs. HCPCS J-codes) • Appropriate dosing • Waste reduction • Utilization/case management • Reduction in hospitalizations driven by clinical appropriateness, patient compliance and persistency

**MID Buys DRUGS,
ADMIN + BILLS MCO*

"GPO Model"

"Find low cost source"

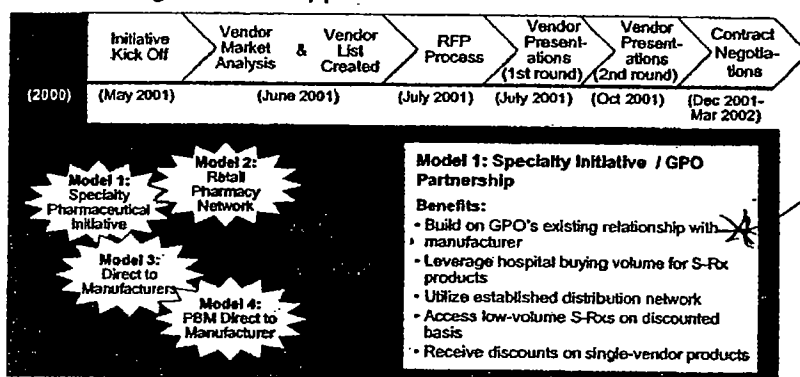
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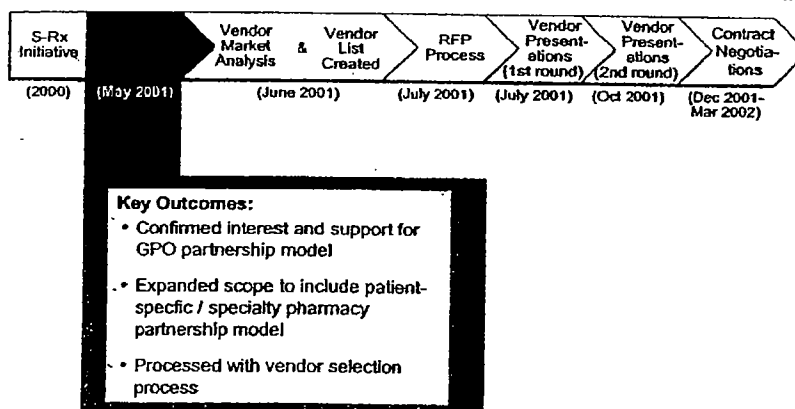
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Specialty Pharmaceutical Initiative: Vendor Selection Process

BCBSA solicited Plan input on four potential pharmacy contracting selection opportunities



Specialty Pharmaceutical Initiative: Vendor Selection Process

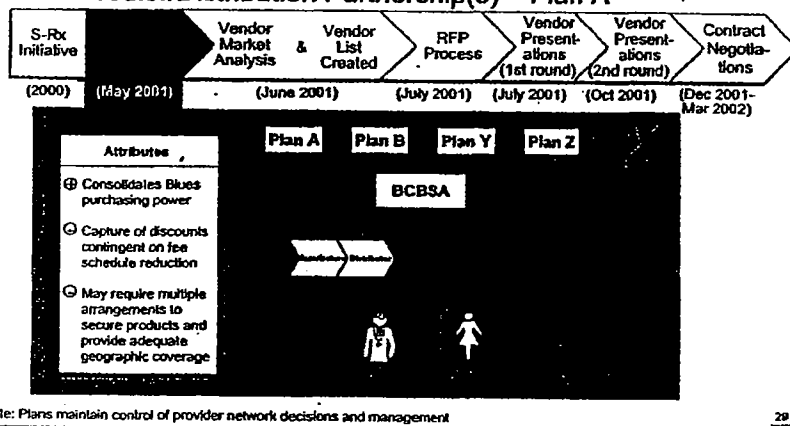


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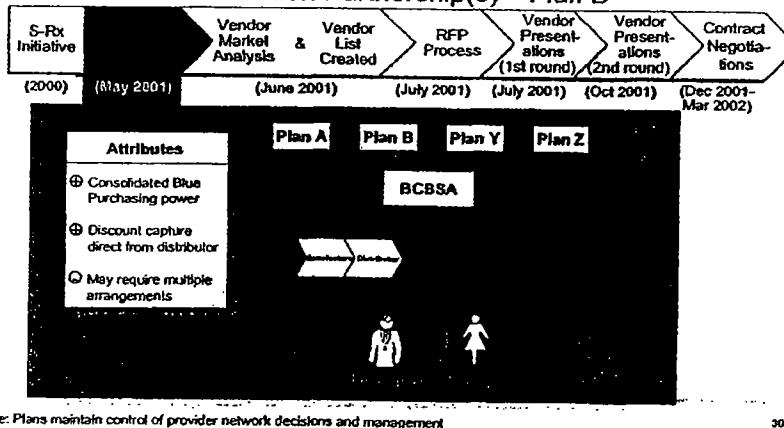
Specialty Pharmaceutical Initiative: Vendor Selection Process

Wholesaler/Distribution Partnership(s) – Plan A



Specialty Pharmaceutical Initiative: Vendor Selection Process

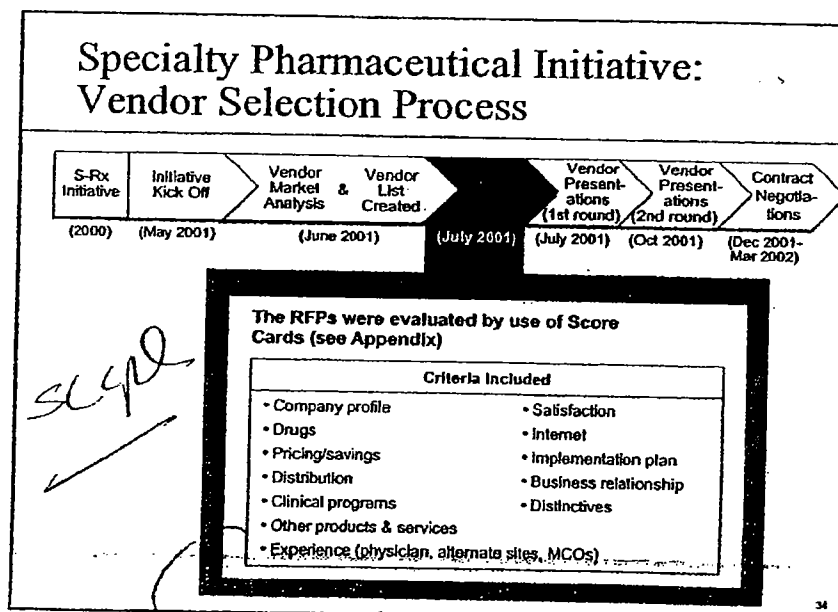
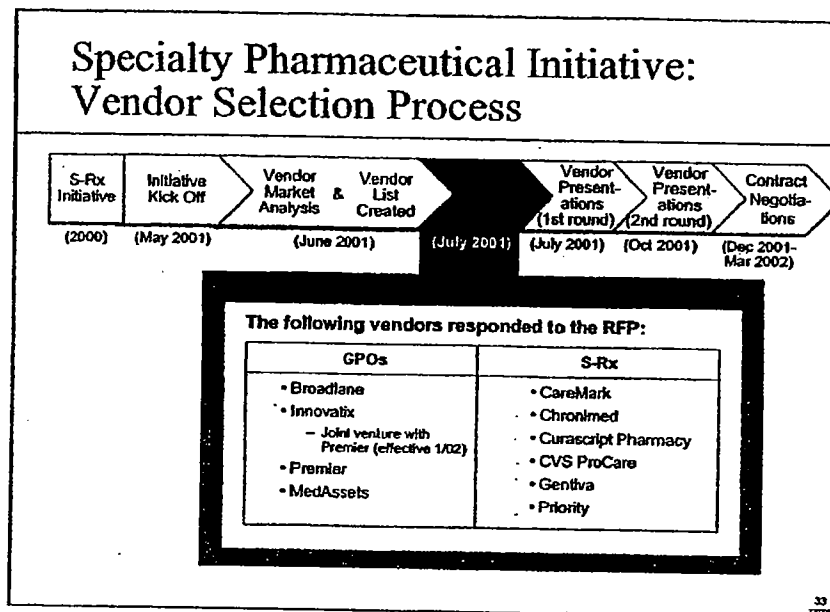
Wholesaler/Distribution Partnership(s) – Plan B



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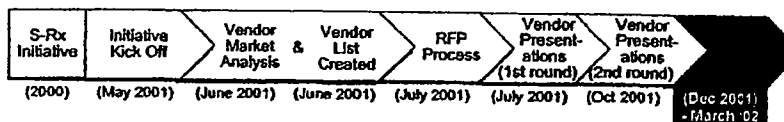
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→ name of GPO function to help MCOs if impacting bottom line

Specialty Pharmaceutical Initiative: Vendor Selection Process



- Contracted Innovatix and Premier
- Received notice of Innovatix and Premier JV (Nov-Dec)
- Initiated negotiations with S-Rx companies (Dec)
- Contracts complete:
 - ☒ Innovatix (March 2002)
 - ☒ Priority (Feb 2002)
 - ☒ Curascript (Feb 2002)
 - ☐ Caremark (TBD)
 - ☐ McKesson (TBD)

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Agenda

- Background
- Pharmaceutical Cost Trends
- Specialty Pharmaceutical Initiative
- **Specialty Pharmacy Program Implementation**
 - Vendor Model Options
 - How Does it Work?
 - Critical Path
 - Division of Responsibilities
 - Considerations
- Appendix

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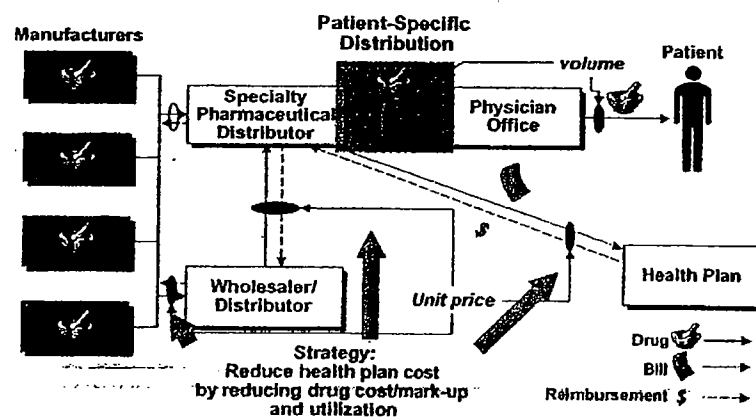
Specialty Pharmacy Program Implementation: Vendor Model Options

How Does it Work?

- 1) BCBSA negotiates cost-plus pharmaceutical and distribution pricing with specialty drug distributors
- 2) BCBSA-sponsored GPO negotiates discounted pricing with specialty pharmaceutical manufacturers and wholesalers / distributors
- 3) BCBSA-sponsored specialty pharmaceutical distributors access GPO contracts to drive down drug acquisition cost (patient-specific)
- 4) BCBS-sponsored providers access GPO contracts to drive down drug acquisition cost (bulk distribution) *only analyzing delay*
- 5) BCBS Plans reduce provider fee schedules to capture value of GPO and specialty pharmaceutical distributors discounts

Specialty Pharmacy Program Implementation: Vendor Model Options

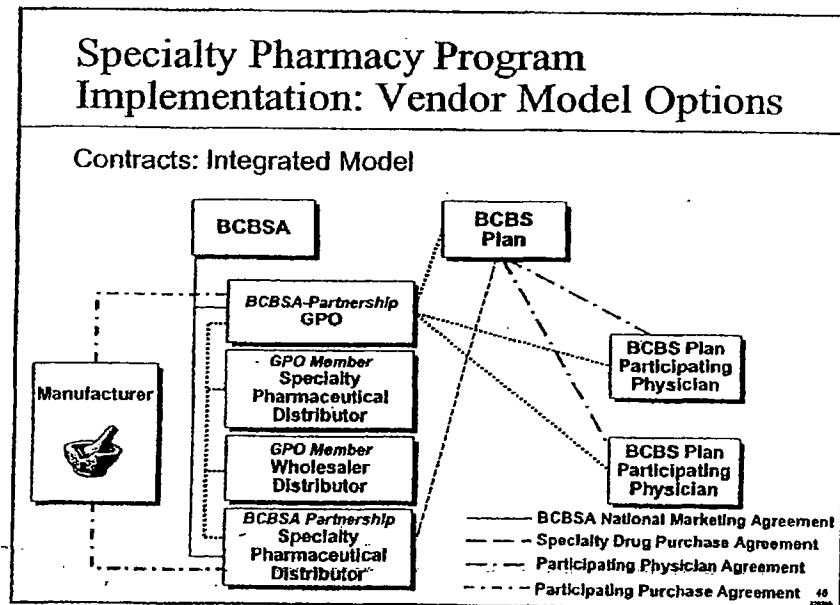
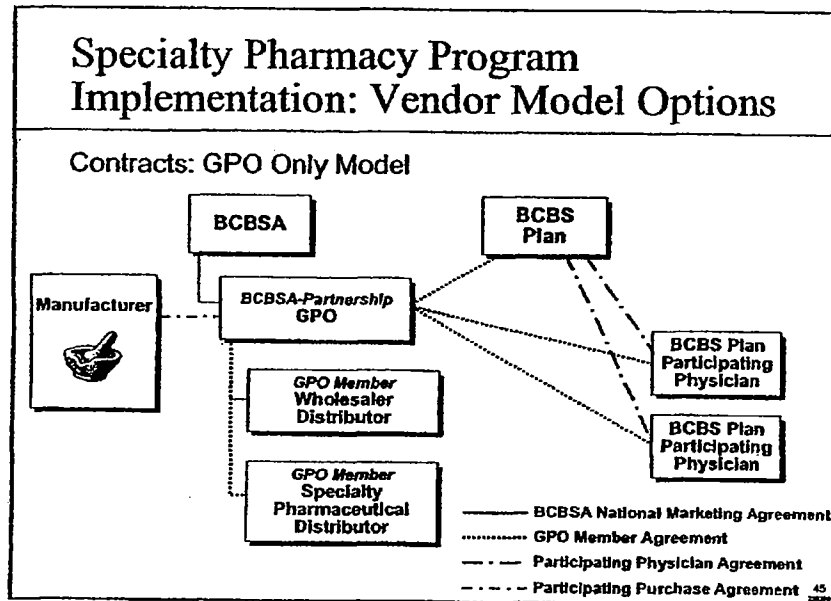
Patient-specific distribution/reimbursement model



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*Key -
S-R - pass
through GPO
savings - !*

** Less of Pharm to GPO & S-R*

** Pharm Co 1*

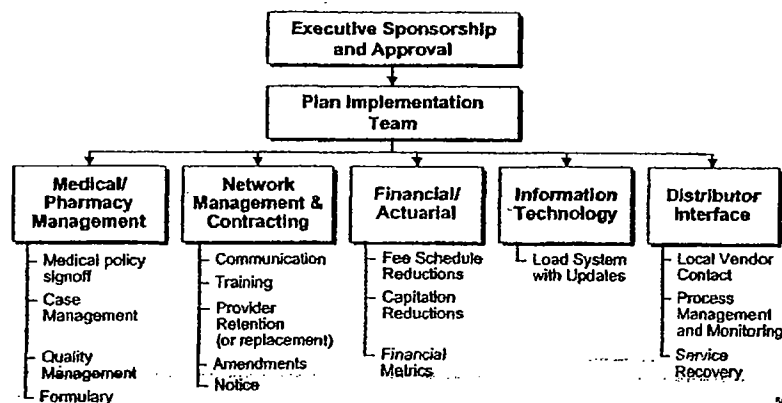
Specialty Pharmacy Program Implementation: Critical Path

- ☐ Multi-Disciplinary Executive Sponsorship
- ☐ Program Structure / Business Model Defined
- ☐ Vendor(s) Selected; Contract(s) Negotiated & Executed
- ☐ Major Decision-Points Identified; Decisions Finalized
- ☐ Detailed Implementation Plan Developed
- ☐ Multi Disciplinary Staffing Requirements Identified & Secured
- ☐ Provider Communication & Contracting Completed
- ☐ Systems & Procedures Modified and Tested

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Specialty Pharmacy Program Implementation: Division of Responsibilities

Plan Level



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Agenda

- Background
- Pharmaceutical Cost Trends
- Specialty Pharmaceutical Initiatives
- Specialty Pharmacy Program Implementation
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 - A. Key Decisions Checklist
 - B. Score Cards
 - C. National Project Team
 - D. Program Level Responsibilities

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Appendix A: Key Decisions Checklist

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Appendix D: Program Level Responsibilities

Program Level

National Project Team/Association

- Business model
 - Common approaches, program design
- Vendor selection
- Master contract negotiation and execution
- Plan Recruitment
- Vendor management: National

Individual Plan

- Support implementation of common business model
- Implementation planning and execution
 - Provider network rollout
 - Internal systems and processes
- Vendor interface and field office management

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